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CIA/DER / S-07521-75

6 May 1975

MEMORANDUM FOR: Mr. James Placke
Director, Office of Food Policy and Programs
Department of State

SUBJECT : Transmittal of a Report on International
Grain Reserves

1. In response to your request, we have put together a short report entitled The Grain Reserves Issue. It covers the developments on this subject since the World Food Conference. The emphasis is on the US grain reserve proposal and known reactions of foreign governments to it.

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2. Questions and comments on the attached study should be directed to the responsible analyst, [redacted]

[redacted] If we can be of any further assistance let me know.

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[redacted]
Office of Economic Research

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Attachment:
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THE GRAIN RESERVES ISSUE

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OFFICE OF ECONOMIC RESEARCH
CENTRAL INTELLIGENCE AGENCY
6 MAY 1975

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The Grain Reserves Issue

SUMMARY

World food security requires that an international system of foodgrain reserves should be established. Grain stocks are dangerously low so that a downturn in output could result in high prices and starvation in LDCs. On these points there is wide international agreement, but there the agreement ends and no quick solution is in sight. Differences are sharp on the intended use of reserves (commercial, long-term food aid, or emergency food aid), where to locate them, source of financing, the mechanism for release, and the quantity and kinds of grains to be included.

The World Food Conference in Rome last November adopted a resolution on global food security that called for developing a system of nationally and internationally held stocks based on an exchange of information and international consultation. This proposal, put forth by Mr. Boerma, Secretary-General of the FAO, is considered by many observers to have considerable merit. The FAO wants to assume world leadership on this issue, but its deliberations are unwieldy and time consuming. Besides, the FAO does not include the membership of the USSR, which was a major cause of the instability in world grain markets during 1972-73.

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To overcome these problems, especially USSR participation, and to provide leadership on such an important issue, the US has initiated efforts under the International Wheat Council (IWC) Secretariat to develop a reserve concept agreed upon by at least the major grain exporters and importers. The next meeting will be held in June. The US preliminary proposal calls for developing an international reserve of up to 60 million tons of wheat (or its equivalent), excluding pipeline stocks, to be held mainly by the major grain-trading countries and to be managed, not by a price mechanism, but from the standpoint of an adequate volume to cover unusual commercial and food aid needs. Although price stabilization could result, this is not the stated objective of the US proposal. Most countries view price stabilization as a primary goal.

The European Economic Community (EC) wants the reserves issue to be resolved as part of the Multilateral Trade Negotiations now getting underway in Geneva and wants price to be the mechanism for managing supplies. Although the EC may ultimately agree to discuss reserves under the IWC, they would still want the outcome to be approved in Geneva, a process requiring a number of years. Other countries and organizations have taken diverse stands on the reserves issue, but all important countries, except the USSR and the PRC, will

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probably accept whatever plan the US and the EC agree upon, as long as price is an input. The USSR and the PRC, both for national security reasons, are unlikely to be drawn into any tightly controlled international reserve plan.

Background

The World Food Conference (WFC) held by the UN in Rome in November 1974 endorsed broad proposals for world food security. Keen interest in this subject and in the WFC -- exemplified by the attendance of 133 nations and hundreds of national and international organizations -- stemmed from the prevailing fear since 1972 of a world food shortage. The disastrous 1972 weather sharply cut production at a time when an economic boom was rapidly expanding global demand for food commodities.

Large purchases by the USSR, the PRC, and developing countries quickly reduced the large surplus grain stocks normally held by the US and other exporting countries. The impact of these events was especially felt by poorer nations as food aid programs, now handled mainly bilaterally and to a limited extent through the World Food Program under the UN, were cut back as world grain prices rose sharply. World grain production rose substantially in 1973, but not enough to rebuild stocks. Production in 1974 was below expectations, especially in the US, and grain stocks by mid-1975 will be down to a new low.

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The urgent need to build stocks of basic foodstuffs to cover future shortfalls in production was stressed by the WFC as a major aspect of world food security. The stocks were to be of two types.

°Resolution 17 asked all states to participate in building national stocks, particularly of grain. The amount to be held by individual nations would be nationally determined, depending on such factors as vulnerability to crop failure, size of national requirements, and time required to arrange imports. Information would be shared with the objective of ensuring a globally sufficient amount.

°Resolution 18 stated the need for forward planning of a continuous and larger amount of food aid for emergency relief. Donor countries were asked to provide commodities or financial assistance for a minimum of 10 million tons of grain for food aid a year, in addition to other food commodities, starting in 1975. Donors were urged to channel more food aid through the World Food Program.

International Reactions and Positions

The following section outlines progress to date and principal attitudes of the major countries and organizations involved in establishing an international system of food reserves.

The Food and Agriculture Organization

The resolutions on stocks adopted at the World Food Conference (WFC) were largely based on proposals put forth by A.H. Boerma, Director-General of the FAC, which included four essential elements:

°Voluntary adoption by all countries of national stockholding policies which would maintain a minimum level of basic food stocks for the world as a whole.

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°Establishment of national stock targets possibly with international expert guidance, aiming at stock levels necessary to ensure continuity of supplies to meet domestic and, where appropriate, export requirements in case of crop failure or natural disaster.

°An improved system of information gathering and exchange of information on the world's food position.

°Expansion and coordination of assistance to developing countries so that they can participate more effectively in the system.

The FAO Secretariat estimated before the WFC that a "safe" carryover for the entire world would amount to 230 million tons of all types of grains. This would include working stocks, and food aid requirements, both long term and emergency. The composition and location of the stocks would be determined by governments during regular intergovernmental consultation. Boerma proposed that, for the UN to deal with emergencies, a reserve containing 500,000 tons of cereals and other goods be created and maintained by developed countries, with a portion prelocated in needy areas. He also proposed that donor countries agree to long term food aid -- at least 10 million tons annually arranged three years in advance, with an agreed share channeled through the World Food Program. On the subject of price, the Boerma plan is vague -- nations holding reserves are to make "supplies available for export at reasonable terms" in periods of acute shortage.

Mr. Boerma feels that the FAO should provide world

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leadership for developing a reserve scheme and be responsible for coordinating it. FAO has scheduled a meeting on world food security in Rome for 19-23 May. The agenda for the meeting is not yet known. The FAO Secretariat at a recent meeting in Geneva revealed that reserves should amount to 45-50 million tons, but details on whether these would include emergency aid, who should hold them, and by whom and how they should be managed were not announced.

The FAO is seriously handicapped as a forum for resolving such problems because the USSR, by far the biggest contributor to fluctuations in world production and demand for wheat, is not a member. Neither is the PRC a member and it objects to provisions in any international agreement requiring information on its national food situation.

Other International Organizations

At an 87-nation commodities meeting of the UN Trade and Development Organization (UNCTAD) in Geneva in February, the agency emphasized the urgent need to build buffer stocks to ensure supplies of at least 20 major raw materials. UNCTAD proposes that 36 million tons of wheat and rice should be held in stockpiles. Financing of the stocks should be through a common fund supported by both exporting and importing countries; the schemes would operate like international commodity

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arrangements, with special consideration given to protecting the developing countries. Two more meetings are planned for this year.

Food security is also on the agenda of the June meeting of the World Food Council, which was recently established by the UN General Assembly to oversee the world food situation. This first meeting will be largely organizational; however, it will review steps that have been taken and determine the priorities for implementing the resolutions adopted by the World Food Conference, including the resolution on food security.

The United States Position

The US regards food security as the most urgent issue connected with grains and recognizes that this summer's crop may permit some rebuilding of reserves. In accordance with the WFC Resolution 17 which invited "governments ... to enter as soon as possible into discussions ... with a view to establishing grain reserves to be located at strategic points," the US convened an ad hoc meeting on 10-11 February at the International Wheat Council Headquarters in London to discuss the question of grain reserves. Representatives of 11 grain producing, consuming, and trading nations -- Argentina, Australia, Brazil, Canada, the EC, Egypt, India, Japan, Thailand, the US and the USSR -- attended and held an informal exchange of views. Although this Reserves Group

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may hold other ad hoc meetings, the IWC has set up a working group to study alternatives to the present wheat agreement, including consideration of international reserves. Countries are to submit position papers -- without identification -- in May and the first report of the study group is expected to be ready for the next meeting in June.

The US considers the IWC as the best forum for quick progress on the reserves issue -- it has experience in international grain trade and stockpiling problems, it would ensure that reserves are built on an orderly basis pursuant to an internationally agreed system. Also, the USSR is a member. US officials believe that for any reserve plan to be viable it must have reasonable support by the major exporting and importing countries. They doubt that the FAO can develop a workable scheme because of its cumbersome organization and of the diverse aims of the numerous FAO members.

Details of the US plan are still vague. The latest proposal being floated would involve up to 60 million tons of wheat or its equivalent in other foodgrains -- exclusive of pipeline or working stocks -- based on world wide participation. This global target would be divided into

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national stocks to be held by participating countries and to be managed according to agreed procedures. No part of the global reserve would be designated "emergency" reserve; instead, a priority claim on reserves for food aid could be part of any arrangement. Grain would be released or accumulated depending on the world grain supply situation as determined by the projected world grain yield and not on price. The agreement would include specific reserve targets for all participants, guidelines or rules for achieving these targets and for release and replenishment of reserves, and a system of information exchange and consultation among all participants. Proposals to collect or exchange this type of global information met with serious objection from many countries during the Rome meeting.

The USSR and the PRC

The USSR attended the February London meetings, but has since privately informed the US State Department that it will not participate in the IWC working group on reserves. USSR officials say publicly they want the UN to handle reserves, but they basically prefer the commodity agreements, state-owned reserves and price stability. The PRC refused an invitation to the London meeting and expressed doubt that

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a reasonable food reserve system could be devised. Besides the problem of infringement on national sovereignty, they see problems of financing the reserves and with the power that a reserve system would give food exporters over the market.

The Economic Community

The EC was uncooperative at the London meeting because the EC has been pushing for months to have the grain reserve issue handled in Geneva as an integral part of the Multilateral Trade Negotiations. They contend that prices must be a part of any reserve scheme and these should be agreed upon in the MTN. Adoption of this procedure would result in a long delay in implementing a reserve scheme and would involve the reserves issue in even broader discussions between the EC and the US over procedures for the MTN. The EC insists that all aspects of negotiations on agriculture, including tariffs and non-tariff barriers, be delegated to the MTN's Agriculture Group* and its sub-groups. This would isolate agricultural goods from other commodities and make parallel progress on all commodities nearly impossible. This is contrary to the US position that negotiations on agriculture must first take place within the Tariff and Non-Tariff Measures Groups, then

*Six preliminary negotiating areas or groups were established at the "Tokyo Round" of trade negotiations in September 1973; tariffs, non-tariff barriers, sectors, safeguards, agriculture, and tropical products.

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pass to the appropriate agricultural sub-group for technical refinements. During the MTN meetings on 16-17 April in Geneva the EC position hardened. The EC representative said they will continue to refuse to participate actively in the IWC reserves talks until the issue of a grains group with a negotiating mandate in Geneva is resolved.

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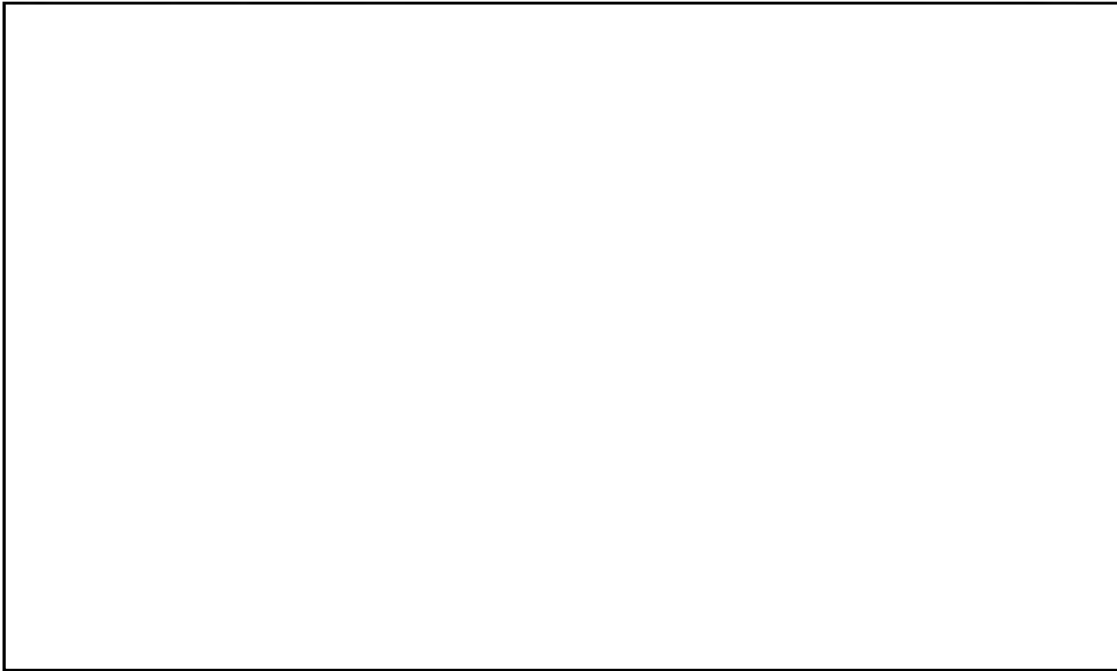
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Less Developed Countries

In general, the LDCs seem to support building international stockpiles of grains, including wheat, rice, and coarse grains, to ensure food security. They want the UN and FAO to assume leadership. Selected statements by individual LDCs reveal a variety of attitudes on how large reserves should be and how they should be built and operated.

Bangladesh formally proposed establishing a World Food Security Council under the UN General Assembly and a World Food Bank to maintain emergency and food aid reserves at strategic regional points. Brazil prefers that reserves should be strictly for emergencies and should not be used

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to control price. Brazilian leaders are afraid that politics may influence the management of any new reserves' mechanism. Israel plans to support, in principle, measures to affect world food reserves and an international food security agreement, but it is not able to contribute to it. Mexico also formally proposed to the WFC in Rome that a world bank be created under a new institution with all members contributing what they can; the new organ would be administered democratically by a council of developed and developing countries. Pakistan, as a deficit country, said it could not afford to set aside part of its wheat production for reserves as long as it is a net importer. Venezuela supports the idea of a food reserve system to deal with shortages but is not in favor of creating new food organizations. Zaire also does not want new institutions, and is ready to support any concrete initiatives to get coordinated action on food problems.

CIA/OER
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